

## Message Text

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64

ACTION NEA-16

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 ISO-00 FEA-02 AEC-11

AID-20 CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00 EB-11

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R 051150Z JUN 74

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 6733

INFO USMISSION OECD PARIS

AMEMBASSY ABU DHABI

USINT ALGIERS

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

S E C R E T TEHRAN 4587

STATE ALSO FOR T/IEP

E.O. 11652: GDS

TAGS: ENRG, OPEC, OECD, IR

SUBJ: IRANIAN THOUGHTS ON FORTHCOMING OPEC/QUITO MEETING

REF: TEHRAN 4184

1. OVER LUNCH JUNE 4 DCM HAD A CHANCE TO CHAT WITH IRANIAN

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MINISTER OF INTERIOR JAMSHID AMOUZEGAR ABOUT FORTHCOMING OPEC

MEETING AT QUITO. AMOUZEGAR WHO WILL BE CHIEF IRANIAN DELEGATE, SAID THAT HE BELIEVES A NUMBER OF ARAB PRODUCER COUNTRIES WILL PRESS FOR AN INCREASE IN POSTED PRICES JUSTIFYING IT ON GROUNDS THAT ANY COMMONLY ACCEPTED PRICE INDEX OF WESTERN INDUSTRIAL GOODS WILL REVEAL AN ANNUAL INCREASE OF BETWEEN 10 AND 12 PERCENT SINCE POSTED PRICES WERE LAST ESTABLISHED. HE SAID THAT IRAN WAS NOT IN FAVOR OF SUCH AN INCREASE ALTHOUGH IT FELT STRONGLY THAT REVENUES FROM OIL OUGHT TO KEEP PACE WITH WORLD INFLATION. IN DISCUSSING HOW THIS MIGHT BE ACHIEVED HE SAID THAT THERE WERE TWO APPROACHES. FIRST WAS TO SIMPLY AWAIT AGREEMENT BETWEEN OTHER PRODUCER COUNTRIES AND OIL COMPANIES ON A BUY-BACK PRICE AND/OR REVISED PARTICIPATION AGREEMENTS. WHATEVER FINANCIAL BENEFITS WOULD ACCRUE TO THOSE COUNTRIES THROUGH THESE ARRANGEMENTS WOULD ALSO ACCRUE TO IRAN. THE SECOND APPROACH WAS TO INCREASE THE RATE OF TAX OIL COMPANIES HAD TO PAY TO PRODUCER COUNTRIES. HE HINTED THAT THIS WAS THE COURSE OF ACTION IRAN MIGHT FAVOR, ALTHOUGH BASICALLY GOI KEEPING ITS OPTIONS OPEN FOR THE MOMENT. THE OBJECTIVE WAS TO LIMIT OIL COMPANY PROFITS ON UP-STREAM OPERATIONS TO SOMEWHERE BETWEEN .50 AND .65 (CENTS) A BARREL. HE SAID THAT EVEN WITH THIS MARGIN OF PROFIT THE OIL COMPANIES WOULD MAKE DOLS1.2 BILLION FROM IRAN ALONE THIS YEAR FOR "DOING NOTHING." HE ADDED THAT THE PSYCHOLOGICAL SETTING FOR STICKING THE OIL COMPANIES HAD BEEN QTE CREATED BY YOUR OWN PEOPLE UNQTE AND CITED A RECENT STATEMENT BY FEO DIRECTOR SAWHILL REGARDING OIL COMPANIES' SURPLUS PROFITS.

2. WHILE NOTING THAT OIL PRICES WOULD BE THE PRINCIPLE SUBJECT OF THE QUITO MEETING, HE ALSO SAID THAT SOME EFFORTS WOULD BE MADE TO RATIONALIZE THE DIFFERING FORMULAE FOR CALULATING PRODUCER GOVERNMENT TAKE. HE NOTED THE DIFFICULT AND COMPLICATED CALCULATIONS THAT HAD TO BE MADE UNDER PRESENT CIRCUMSTANCES. PRODUCTION LEVELS MAY ALSO BE DISCUSSED BUT AMOUZEGAR DID NOT EVIDENCE MUCH INTEREST OR CONCERN OVER THIS QUESTION.

3. WHEN AMED ZAKI YAMANI'S RECENT CALL FOR A REDUCTION IN POSTED PRICES WAS RAISED, AMOUZEGAR RIDICULED WESTERN OBSERVERS FOR BEING TAKEN BY THIS QTE TRANSPARENT PLOY. UNQTE HE SAID YAMANI KNEW VERY WELL THAT HIS ARAB OPEC PARTNERS (NEVER MIND IRAN) HAD NO INTENTION OF GOING ALONG WITH SUCH A SUGGESTION.

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ACCORDINGLY, YAMANI HAD NO COMPUNCTION IN MAKING IT FOR HIS AND SAUDI ARABIA'S OWN PURPOSES KNOWING THAT IT WAS CERTAIN TO BE REJECTED. HE WENT ON TO SAY THAT YAMANI WAS VERY CLEVER IN TALKING TO REPORTERS WHO KNEW LITTLE OR NOTHING ABOUT THE OIL BUSINESS AND WAS THEREFORE ABLE TO AVOID THE TOUGH HARD QUESTIONS. FOR EXAMPLE, HE SAID, A KNOWLEDGEABLE REPORTER WOULD HAVE PRESSED YAMANI RECENTLY ABOUT THE MARKET PRICE SAUDI ARABIA WAS SELLING ITS OWN OIL AT THESE DAYS. THE TRUTHFUL

ANSWER, HE CLAIMED, WOULD HAVE BEEN DOLS11 A BARREL. THIS IS HARDLY A PRICE CONSISTENT WITH SAUDI'S PROFESSIONS OF CONCERN ABOUT THE BURDEN THE BUYER WAS BEING OBLIGED TO BEAR, AMOUZEGAR OBSERVED.

4. AMOUZEGAR REITERATED THAT IRAN'S FUNDAMENTAL POSITION AND RATIONALIZATION FOR OIL PRICES BEING SET AT ABOUT DOLS7 A BARREL WAS THAT ACCORDING TO GOI CALCULATIONS, THIS WAS THE MINIMUM COST FOR ALTERNATIVE SOURCES OF ENERGY. HE ASKED RHETORICALLY WHAT THE BASIS WAS FOR ARGUMENTS BY OTHERS THAT THE PRICE OUGHT TO BE EITHER HIGHER OR LOWER AND RIDICULED YAMANI'S CALL FOR A REDUCTION OF DOLS2 A BARREL. WHY DOLS2, HE SAID, WHY NOT DOLS4 OR DOLS5? IN THIS CONNECTION HE PROFESSED PUZZLEMENT AND DISMAY OVER THE APPARENT INABILITY OF THE WESTERN WORLD TO RECOGNIZE IRAN'S PRICE POSITION AS A BLESSING IN DISGUISE. HE SAID THAT WITHOUT AN ECONOMIC INCENTIVE NEITHER WESTERN GOVERNMENTS NOR WESTERN PRIVATE CONCERNS WERE GOING TO INVEST IN RESEARCH AND DEVELOPMENT OF ALTERNATIVE SOURCES OF ENERGY. AS LONG AS OIL WAS ARTIFICIALLY CHEAP, THE WEST WOULD GO MERRILY ON ITS WAY CONSUMING A VALUABLE, NON-REPLACEABLE RESOURCE TO ITS ULTIMATE DISMAY AND DOWNFALL. IRAN HAD RECOGNIZED THIS DANGER AND HAD ACCORDINGLY TURNED TO THE RAPID DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES, AT THE MOMENT CONCENTRATING ON NUCLEAR POWER.

5. COMMENT: WE NOTE THE DIFFERENCE IN EMPHASIS CONCERNING OIL COMPANY QTE EXCESS PROFITS UNQTE BETWEEN AMOUZEGAR'S REMARKS AND THOSE OF MANSOURI'S REPORTED REFTEL. OBVIOUSLY, AMOUZEGAR'S VIEWS ARE THE IMPORTANT ONES BUT THE OVERALL PICTURE WE GET IS THAT GOI DOES NOT AT THE MOMENT HAVE RIGID WELL-DEFINED POSITION ON PRICE DECISIONS THAT SHOULD EMERGE FROM JUNE 15 OPEC MEETING, ALBEIT LEANING IN THE DIRECTION OF INCREASED TAXES.

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